[COMMITTEE PRINT]

TAX REDUCTION PROGRAM

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SUMMARY OF PUBLIC TESTIMONY ON TAX ASPECTS OF THE ADMINISTRATION'S ECONOMIC STIMULUS PROGRAM

PREPARED FOR THE

COMMITTEE ON WAYS AND MEANS

BY THE STAFF OF THE

JOINT COMMITTEE ON TAXATION

AND THE

CONGRESSIONAL RESEARCH SERVICE

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INTRODUCTION

This pamphlet summarizes the testimony received by the Committee on Ways and Means during its public hearings on the tax aspects of the Administration's economic stimulus program. It includes the testimony of the invited economic panel on February 4, 1977, and testimony from the general public on February 7–9, 1977. The summary of testimony is organized into three general categories: (1) comments on economic conditions, (2) comments on tax reduction proposals (divided into individual and business tax cut proposals), and (3) comments on expenditure proposals. The primary emphasis is on testimony on the various tax-related proposals.

The Administration's tax reduction program, in general, includes a $50 per person tax refund, an increase in the standard deduction, revision of the tax tables and an optional increase in the investment tax credit or a payroll tax credit for business. In addition, the Administration's economic stimulus program includes a $50 payment to social security and certain other recipients, and increased outlays in fiscal 1977 and 1978 for countercyclical revenue sharing, public works, public service employment and job training. The specific proposals are mentioned below under the appropriate heading. These proposals are as presented in testimony on February 2 and 3, 1977.

This summary of testimony was prepared primarily by the staff of the Economics Division, Congressional Research Service: Donald Kiefer, Robert Tannenwald, Ann Marley, and Jane Gravelle.

I. COMMENTS ON GENERAL ECONOMIC CONDITIONS

Jack Carlson, Chief Economist and Vice President, U.S. Chamber of Commerce (Feb. 4)

States that the economy is suffering from excessive unemployment and underutilized plant and equipment and agrees that modest economic stimulus is justified.

Michael K. Evans, President, Chase Econometric Associates (Feb. 4)

Believes the economy looks weak in 1977 and that substantial fiscal stimulus is needed. Forecasts real growth in the first quarter will be only 4%, second quarter will increase to 7% but will not be sustainable; contends that without a fiscal stimulus the second quarter would also be only 4% real growth. Indicates that the unusually cold winter will cause a loss of personal income at an annual rate of approximately $8.5 billion in the first quarter of 1977. Does not believe this loss will be made up later.

Estimates the President's tax cut program will raise real GNP 0.6% in 1977 and an additional 0.6% in 1978; lower unemployment 0.3% in 1977 and 0.6% in 1978; and have no inflation impact in 1977 and increase prices 0.2% in 1978.

Walter W. Heller, University of Minnesota (Feb. 4)

States that economic recovery is behind schedule. In real terms (compared to the 1973 pre-recession peak) indicates that business investment is down 12%, consumer income is up only 4½%, and GNP is up 3%. For the average post-war recovery business investment would by now be up 5%, consumer income 8%, and GNP up 8% above the previous peak. Believes that about one-half of the proposed tax rebate may be cancelled by the colder than usual winter which will increase heating cost from $3 to $5 billion.

Indicates that the Administration tax reduction program is less than 1% of GNP whereas the 1964 tax cut was closer to 2% of GNP. Believes there is a need for speedy enactment and some expansion of the President's program.

Hendrik S. Houthakker, Harvard University (Feb. 4)

Maintains that the economic policies followed in 1975 and 1976 have been quite successful in dealing with inflation and the drop in output and employment. Indicates that inflation has been cut about in half; GNP in real terms is 3% above the previous peak and 10% above the recession low; employment is 2½% above the pre-recession peak and 5% above the recession low; and economic growth has been about 6% in real terms for the last seven quarters.

Argues that the economy does not need emergency stimulus measures, but rather long-term structural changes. Feels that the unemployment problem stems largely from an unusually large growth in the labor force—mostly the entrance of women—and does not result primarily from cyclical problems.

Reginald H. Jones, Chairman of the Board, General Electric (Feb. 4)

Believes there will be sharply reduced real GNP growth and 8.1% unemployment in 1977 unless the economy is stimulated. Favors a permanent tax cut and jobs program of about $23 billion in magnitude.

Howard Young, Special Consultant to the President, United Automobile Workers International Union (Feb. 4)

Claims that without any additional stimulus, real GNP growth in 1977 could be as low as 3.5 percent and unemployment could increase. Feels that the cold weather has worsened the economic outlook and made a fiscal stimulus even more necessary.

Charles W. Stewart, President, Machinery and Allied Products Institute (Feb. 7)

States that prior to the natural gas crisis and severe weather, economy was recovering on its own (and agrees with Arthur Burns' assessment on the progress of the economy). However, in light of these recent developments, believes some stimulus deserves "serious consideration".

In response to a question, indicates that the stimulus should not be increased.

Charls E. Walker, Chairman, American Council for Capital Formation (Feb. 7)

Believes that in the absence of the severe weather, no stimulus would be needed. However, given the weather crisis, feels that a stimulus is in order. Indicates that any increase in stimulus package beyond its proposed level might be inflationary.

In response to a question, states that the unemployment rate would jump one point between January and February because of the cold weather. Responds that a 5-percent per annum rate of inflation is not sustainable.

David Toll Edison Electric Institute (Feb. 7)

Believes "there is a need to provide a stimulus to the economy to push it forward on the road to full recovery."

William Miller, Member, Advisory Board, Coalition of Northeastern Governors and Chairman, Textron (Feb. 7)

Feels that size of stimulus package is appropriate given the current economic outlook.

George H. Lawrence, President, American Gas Association (Feb. 7)

In response to question, says that his industry is particularly concerned about over-stimulation and inflation.

Norma Pace, Senior Vice President, American Paper Institute (Feb. 8)

Believes that the economy shows many signs of recovery, but that there are several structural situations that suggest weakness. Indicates that these include persistently high unemployment and the sluggish patterns of investment in new productive facilities. Asserts that there is a discontinuity between consumption and investment spending which precludes reliance on consumer spending in order to increase business investment.

Albert H. Cox, Merrill Lynch & Company (Feb. 8)

Argues that greatest stimulant to economy would be further progress in reducing inflation. Feels that the economy has performed well since recession ended. Indicates that in a relative sense the only two disappointing performers have been business investment and the unemployment rate. Disagrees with consensus regarding the need for additional government stimulus.

Believes the adverse effects of the weather and natural gas shortage are likely to be temporary and does not favor adding to the President's proposals because of them.

Questions the predictive value of aggregate statistics on unemployment and plant and equipment. Expresses the concern in business and financial communities that the inflationary conditions of 1973–74 may return if the Government rekindles inflationary pressures by stimulating the economy.

Adds, in response to questions, that the jobs approach is preferable to the tax approach from the viewpoint of inflationary impact. Feels, however, we can make the President's goal of 6.5% unemployment by the end of the year without stimulus.

Milton D. Stewart, President, National Small Business Association (Feb. 8)

Views expanding the job supply as what should be one of the nation's four central domestic policy goals for the next ten to fifteen years—along with avoiding excessive inflation, improving national productivity and technology, and maintaining diversity in our economy. Believes that unemployment statistics do not fully reflect the economic problem. Asserts there is a far greater labor force reserve available for new jobs than the numbers indicate.

Reuben L. Johnson, Director of Legislative Services, National Farmers Union (Feb. 8)

Maintains that economic stimulus measures are needed with the greatest urgency. Sees little real evidence that the economy is righting itself. Believes important part of the weakness in demand for farm products is attributable to unemployment.

Robert Eisner, Northwestern University (Feb. 8)

Indicates a need for substantial stimulus to move at reasonable speed toward full employment and production. Asserts that currently idle resources of capital and labor are needlessly sacrificing output at a rate of $150 to $200 billion per year. Suggests that the size of the economy today calls for stimulatory packages on the order of $40 billion per year and not $15 billion per year as provided by the Administration's program.

Adds, in response to a question, that by cutting taxes the deficit will be increased in the short run, but the economy will be stimulated. In the long run, the deficit will probably be reduced.

Malcolm L. Corrin, National Executive Director, Interracial Council for Business Opportunity (Feb. 8)

Expresses concern for impact of governmental programs that affect unemployment and economic well being of the nation's minority groups. Favors modification of personal and business tax structures to help restore consumer and business confidence and to stimulate business investment.

Hon. Robert Dole, U.S. Senator, Kansas (Feb. 9)

Maintains there is a need for innovative policy which will be both expansionary and anti-inflationary. States that under President Ford inflationary pressures moderated and the trend is toward lower unemployment. Feel that while the cold weather has temporarily idled workers, a large scale jobs program is not the answer because it will increase inflationary pressures and will only temporarily treat unemployment problems.

Andrew J. Biemiller, Director, Dept. of Legislation, AFL–CIO (Feb. 9)

Contends that a tax package is least effective as an economic stimulant. Proposes instead a $30 billion spending program to include $10 billion in public works, $8 billion in public service jobs, $8 billion in housing programs, $2 billion in counter-cyclical revenue sharing and $2 billion in training funds for youths.

Hon. Clif Overcash, United States Conference of Mayors (Feb. 9)

Favors policies aimed at restoring urban areas, which will assist in dealing with problems of unemployment, crime and energy conservation. Notes that many Federal government policies, particularly in the area of housing and transportation, have encouraged urban sprawl and development of extensive suburbs.

Frederick C. Jaicks, American Iron and Steel Institute (Feb. 9)

Asserts that the real economic problem is disappointing capital spending. Notes that business investment in the last quarter of 1976 was 12 percent below the previous peak in 1973. Also indicates that investment in modern technology can save energy.

Matthew J. Kerbec, President, Output Systems Corporation (Feb. 9)

Contends that the stimulus package will be totally inadequate because of the extent to which higher prices have eroded purchasing power. Contends that if we can control inflation we will need no economic stimulus. Maintains that it is important to diagnose the cause of inflation; asserts that recent inflation was a cost push inflation resulting from higher energy prices. Suggests that energy conservation is a top priority.

L. Napolean Cooper, Washington, D.C. (Feb. 9)

Believes that the economy is healthy and that the President's tax proposals are counter-productive. Argues that an energy plan is imperative and states that the economy must show a capability to accommodate full employment with a declining energy base.

II. COMMENTS ON TAX REDUCTION PROPOSALS

A. Individual tax refund and reduction

1. Income tax refund

Administration proposal

The Administration proposes a general $50 per person refund of 1976 income tax liabilities, which generally could not exceed the 1976 tax liability. However, the refund could exceed income tax liability for those using the earned income credit and certain others who would have been eligible for that credit were it not for the income phaseout. This is estimated to reduce revenues in fiscal 1977 by $9.6 billion.

Jack Carlson, Chief Economist and Vice President, U.S. Chamber of Commerce (Feb. 4)

Argues that an across-the-board tax cut is preferable to a one-time tax refund because the refund will stimulate the economy quickly and then dissipate. Believes that this "roller-coaster effect" will heighten the possibility of causing additional inflation and may lead to a rapid increase and then leveling off of inventory orders, thus threatening to cause another economic reversal.

Michael K. Evans, President, Chase Econometric Associates (Feb. 4)

Contends that a tax rebate has a smaller economic impact than almost any other type of fiscal stimulus. Estimates the $11.4 billion in tax rebate and social security payments will increase GNP $12 billion one year after enactment and will have dissipated one year later. Maintains that consumers will spend only about one half of a tax rebate. In response to a question, indicated concentrating the tax refund among people with incomes below $20,000 would not increase the economic stimulus.

Walter W. Heller, University of Minnesota (Feb. 4)

Believes the tax refund will quickly boost consumer spending. Contends that the 1975 tax rebate initially increased savings but thereafter flowed into consumer spending. Maintains that higher than usual heating costs, weather-induced layoffs, food price inflation, and consumer optimism lead to the conclusion that the tax rebate will be spent quickly. Answered a question to the effect that concentrating the tax refund in income levels below $20,000 would increase the efficiency of the stimulus and be more equitable.

Hendrik S. Houthakker, Harvard University (Feb. 4)

States that it is difficult to see any merit in the $50 tax rebate. Claims the 1975 rebate was justified and had a considerable, though temporary, stimulating effect. But believes there is not present need for a quick stimulus. Feels that the revenue involved could be put to better use.

Reginald H. Jones, Chairman of the Board, General Electric (Feb. 4)

Asserts that a temporary tax cut will not provide a lasting stimulus to economic activity. Claims most of the 1975 tax rebate went into savings and reducing debts. Prefers a permanent tax cut.

Rudy Oswald, Director, Department of Research, AFL–CIO (Feb. 4)

Opposes tax cuts in current situation. Maintains that jobs are created only after demand picks up and is sustained. Claims the 1975 tax cut initially increased savings and took 3 months to a year to result in spending. Refers to a recent Harris Poll indicating 62% of the people would not use the proposed tax rebate to stimulate the economy.

Prefers the use of jobs programs; asserts that tax cuts create a greater and more immediate drain on the Federal budget and produce fewer jobs. Also, criticizes across-the-board tax cuts because they cannot be targeted to specific areas or sectors of high unemployment.

Howard Young, Special Consultant to the President, United Automobile Workers International Union (Feb. 4)

Urges approval of the $50 per person rebate. Believes the rebate will quickly boost consumer spending, which will increase capacity utilization and spur investment. Argues that the 1975 tax rebate, after initially increasing savings, led to higher spending over the next three quarters. Asserts that the later economic slowdown resulted from a shortfall in government expenditures.

Contends that the cold weather makes the rebate even more desireable, and as much as 40 percent of the $11.4 billion rebate may be soaked up by higher heating bills. Feels, however, that this should not lead to increasing the rebate, as prefers that public expenditures should increase instead.

Roland M. Bixler, Chairman, Committee on Taxation, National Association of Manufacturers (Feb. 7)

Opposes refund because it represents another "fine tuning attempt at government management of economic decisions". Also believes individuals and business firms will make better decisions if tax relief is permanent, especially if permanent reductions limit future Federal spending. Stresses limits on ability of fiscal policy to alter business behavior, especially when government intervention is sporadic in nature.

Opposes a cap on the rebate. Does not favor using money saved by a cap to augment further rebates at low-income levels.

Charles W. Stewart, President, Machinery and Allied Products Institute (Feb. 7)

Indicates that temporary tax relief is all right as long as "it does not result in a significant postponement of the responsibility of government to face up to long-term tax revision."

Believes rebate is justifiable as part of a short-term stimulus package. Advocates payment of rebate earlier than April, May, or June, the currently envisioned payment period. Asks that Congress act quickly, as it did on natural gas legislation.

Opposes limiting rebate to those with incomes of less than $20,000 per year. Points out that all income groups have been adversely affected by economic conditions. States that inflation has pushed individuals across-the-board into higher marginal tax brackets.

Feels that people who have achieved higher levels of income than $20,000 by pulling themselves up "by their own bootstraps" should not be punished by the tax system. Feels that redistribution is not the goal of this package. Furthermore, maintains that taxpayers in higher brackets will be more likely to buy "big ticket items", particularly durable goods.

Disagrees with Arthur Burns' characterization of the rebate as a "gift", given that inflation has eroded real earnings to such an extent.

David L. Baker, President, Machinery Dealers National Association (Feb. 7)

Supports the proposed rebate in view of the weather situation. In response to a question, urges that the rebate and other proposals should be enacted quickly because of plant shutdowns resulting from the natural gas shortage.

Charls E. Walker, Chairman, American Council for Capital Formation (Feb. 7)

Feels that rebates are justified by the weather. Doubts they will provide a "lasting boost" to the economy. Prefers permanent over temporary reductions. Indicates that he would favor a larger rebate if weather continues to be severe over a long period of time.

Suggests, if it were feasible, that it "might be desirable to allow the rebate only to those whose disposable income has been reduced by increased fuel bills. Does not know of any feasible method of targeting the rebate. Maintains that individuals not affected by higher fuel bills will use the rebate to purchase the output whose production has been deferred because of the cold.

Argues that rebates are less effective than a permanent reduction which people can count on. Believes in "permanent income hypothesis", that people consume according to their average income in the long run.

Objects to putting a cap on the rebate based on income because higher income people are more likely to save rebate, which will augment supply of investible funds, which would alleviate the impact of higher interest rates that financing the rebate might entail.

William Miller, Member, Advisory Board, Coalition of Northeastern Governors and Chairman, Textron (Feb. 7)

Would not object to using revenue savings from a cap on the rebate to augment rebates at lower income levels. Would prefer that such saved revenues be used to support his regional incentive proposal.

Rick Halberstein, Director, Capitol Hill Free Tax Clinic (Feb. 7)

Maintains that $50 per person rebate is inadequate for poorer and elderly persons with small or no families. Urges giving a rebate per "exemption" rather than per person so that persons over 65 or blind would receive a larger amount even though they had no dependents.

Argues in favor of cap on rebate, thereby denying it to taxpayers with adjusted gross incomes of $20,000 or more, or at least a phasing out of the rebate above that level, so that larger rebates would be available to those with lower incomes.

Criticizes fact that lower income childless taxpayers may only be entitled to a rebate equal to their actual income tax liability while taxpayers with children (who would qualify for the earned income credit but for the earnings limitation) are to receive the full $50 regardless of tax liability.

Advocates consideration of the feasibility of granting and publicizing a $50 per person payment to the estimated 8 million people who will not be eligible for the proposed rebate, or at least those who are participants in existing government programs.

Norma Pace, Senior Vice President, American Paper Institute (Feb. 8)

Asserts that the tax rebate of 1975 appeared to have a low multiplier because it was not accompanied by a significant increase in capital spending and housing, which have relatively large multipliers.

Reuben L. Johnson, Director of Legislative Service, National Farmers Union (Feb. 8)

Believes that the tax rebate should be designed to reflect day-to-day spendable purchasing power rather than have the money end up in long-term savings. Suggests that consideration be given to providing part of rebate or refund for lowest income families in the form of bonus meat or dairy food stamps.

Robert Eisner, Northwestern University (Feb. 8)

Contends that temporary changes in tax rates result in increased savings or paying off debts, and thus would not expect the large initial tax rebate to contribute much toward sustained recovery. Expects it would do little more than compensate for the high heating bills this winter.

Adds, in response to a question, that the rebate is among the least efficient ways of stimulating the economy; other approaches are preferable.

Albert H. Cox, Merrill Lynch & Company (Feb. 8)

In response to a question, adds that a phaseout of the rebate might be helpful because that would lower the revenue impact on the Federal deficit.

Bruce G. Fielding, Director and Secretary, National Federation of Independent Business (Feb. 8)

In response to a question, does not object to a cutoff of the rebate at $20,000.

Hon. Robert Dole, U.S. Senator from Kansas (Feb. 9)

Does not tend to favor the rebate.

Andrew J. Biemiller, Director, Dept. of Legislation. AFL–CIO (Feb. 9)

Argues that an analysis of the 1975 rebate shows that the rebate was slower and less efficient than direct job creation. States that the money will be eaten up by higher food and fuel prices due to the severe winter. Suggests that there is no value or justice in giving every American, from the very poor to the rich, the same amount. If a tax cut is to be provided at this time rather than a comprehensive revamping of the tax structure, advocates giving it to those who need it the most. Suggests an income phaseout for the rebate between $25,000 and $30,000, with the additional money to be distributed to lower income individuals. Maintains that a tax cut is no substitute for a more equitable distribution of the tax burden.

Frederick C. Jaicks, American Iron and Steel Institute (Feb. 9)

Maintains that the rebate will provide little economic stimulus because much of it will be used to pay higher utility bills. Also notes that social security taxes have gone up and State and local taxes are headed up. Generally feels that there is no need to increase the size of the cut, despite these problems, because the economy is generally looking up. Suggests that tax reductions should be made permanent since businesses do not make long-term plans based on a temporary stimulus to consumer spending.

Matthew J. Kerbec, President, Output Systems Corporation (Feb. 9)

Contends that the stimulus is inadequate and notes problems in evaluating the effects of a one-time tax rebate.

2. Changes in standard deduction and tax tables

Administration proposal

The Administration proposed a flat standard deduction of $2,400 for single persons and $2,800 for married couples. Currently, the standard deduction for single persons is 16 percent of adjusted gross income, but not less than a minimum standard deduction of $1,700 or more than a maximum standard deduction of $2,400. The standard deduction for married couples is currently 16 percent of adjusted gross income, but not less than a minimum of $2,100 or more than a maximum of $2,800. Under the proposal, the standard deduction is to be built into the tax tables. In addition, the proposal would allow itemizers (up to a certain income level) to utilize the "optional" tax tables. In addition, using these flat dollar amounts for the standard deduction would reduce taxes in the lower and middle income brackets (up to $15,000 for single persons and $17,500 for married couples).

Under the proposed flat standard deduction, taxpayers would itemize if their deductions exceeded the $2,400 floor in the case of single taxpayers and the $2,800 floor in the case of married taxpayers filing joint returns. The tax tables for itemizers would incorporate these floors. Itemizers would deduct only to amounts in excess of the floors to determine the income which they would look up on the "optional" tax table to find the amount of their tax.

In addition, the $750 personal exemption would, under the proposal, be built into the tax tables, as well as the general tax credit (which equals either $35 per capita or 2 percent of the initial $9,000 of taxable income, whichever is greater). The new tables would have different columns for different numbers of exemptions.

The Administration proposal also would extend the $35 part of the general tax credit to exemptions for age and blindness, as well as dependency exemptions.

These changes would reduce tax liability at an annual rate of $4 billion. The revenue loss would be $1.5 billion in fiscal year 1977 and $5.5 billion in fiscal year 1978.

Michael K. Evans, President, Chase Econometric Associates (Feb. 4)

Maintains that the permanent tax cut would have a substantially larger multiplier effect than the rebate, but, because it is so small its effect also will be negligible.

Hendrik S. Houthakker, Harvard University (*Feb. 4*)

Favors increasing the standard deduction more than in the President's program as a way of reducing the use of itemized deductions. Proposes retention of the 16% standard deduction but increasing the maximum to $4,000, along with increasing the minimum, but probably not to $2,800.

Rudy Oswald, Director, Department of Research, AFL–CIO (*Feb. 4*)

Indicates that the permanent tax change proposals should be considered as part of a program of overall tax reform. Claims that nearly half of taxpayers with incomes between $10,000 and $20,000 would receive nothing from the standard deduction changes. Points out withholding would decrease for all workers, but at tax filing time a large group of taxpayers would discover there never had been a tax cut at all.

Howard Young, Special Consultant to the President, United Automobile Workers International Union (*Feb. 4*)

Opposes the standard deduction changes and believes they should be deferred until comprehensive tax reform action. Expresses concern that a permanent tax cut now may jeopardize later tax reform or new programs such as welfare reform, national health insurance, and low- and middle-income housing.

Roland M. Bixler, Chairman, Committee on Taxation, National Association of Manufacturers (*Feb. 7*)

Believes that the proposed change in standard deduction would grant insufficient relief to middle and upper income taxpayers, particularly itemizers.

Charles W. Stewart, President, Machinery and Allied Products Institute (*Feb. 7*)

Views this proposal as piecemeal tax reform that more properly belongs in general tax reform package. Feels there should be a limit to the erosion of the income tax base. Indicates that income tax base erosion tends to increase relative tax burden on those with incomes between $15,000 and $20,000. However, says that those truly in need should not have to pay taxes.

David L. Baker, President, Machinery Dealers National Association (*Feb. 7*)

Endorses the Administration proposal.

Charls E. Walker, Chairman, American Council for Capital Formation (*Feb. 7*)

Believes that the tax simplification contributed by the standard deduction proposals outweighs the inequities it might entail.

Rick Halberstein, Director, Capitol Hill Free Tax Clinic (*Feb. 7*)

Endorses the standard deduction proposal for its simplicity. Advocates measures, however, which would narrow or eliminate the marriage penalty built into the standard deduction. Proposes, for example liberalization of the definition of "single taxpayer", and a larger standard deduction for married working couples. Suggests $2,200 for single persons and $3,000 for couples. Points out that some itemized deductions which served as justification for standard deduction are now recoverable in addition to the standard deduction (child care credit and deduction for alimony payments) ; concludes that case for keeping a high maximum standard deduction for single persons has therefore been weakened.

Bayard Ewing, Chairman, Coalition of National Voluntary Organizations (Feb. 8)

Considers tax simplification as reflected in the proposed increase in the standard deduction to be important. Indicates, however, that this modification would have a detrimental effect on contributions to charity, particularly those which directly serve the public need. Recommends that the uniqueness of the charitable contributions deduction be recognized by treating it as an offset against gross income rather than as a deduction used in computing adjusted gross income, thus permitting individuals using the standard deduction to also enjoy the benefit of the deduction.

Andrew J. Biemiller, Director, Dept. of Legislation, AFL–CIO (Feb. 9)

Notes that workers with income between $10,000 and $20,000 who itemize deductions will not benefit from this change. However, supports the general concept of a minimum standard deduction.

Carol Burris, President, Women's Lobby, Inc. (Feb. 9)

Argues that the change in the standard deduction is unfair to working women and that each person should receive the same amount.

3. General tax credit

Reginald H. Jones, Chairman of the Board, General Electric (Feb. 4)

Favors increasing the per person tax credit from $35 to $50 as a part of a permanent individual income tax reduction.

Richard Halberstein, Director, Capitol Hill Free Tax Clinic (Feb. 7)

Proposes an increase in the $35 per person credit to $50 (to be reflected in withholding).

4. Reduction in tax rates

Jack Carlson, Chief Economist and Vice President, U.S. Chamber of Commerce (Feb. 4)

Maintains that a reduction in tax rates, both on ordinary income and capital gains, would be preferable to a one-time tax cut because tax rate reduction would enhance capital formation and would avoid the "roller-coaster effect" of a one-time tax cut.

Michael K. Evans, President, Chase Econometric Associates (Feb. 4)

Favors a 10% across-the-board personal and business tax cut which he believes would increase productivity, reduce inflationary pressures, and have greater long-term impact.

Hendrik S. Houthakker, Harvard University (Feb. 4)

Believes the change in standard deduction in the program is not enough and that individual income tax rates need to be reduced, especially in the middle-income ranges.

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Reginald H. Jones, Chairman of the Board, General Electric (Feb. 4)

Favors a permanent reduction in individual income tax rates which, together with increasing the per person tax credit, would reduce taxes $15 billion in 1977. Views the tax cut as removing recent inflation-induced non-legislated real tax increases, and believes tax revenues will increase despite the reduction.

Roland M. Bixler, Chairman, Committee on Taxation, National Association of Manufacturers (Feb. 7)

Recommends an across-the-board cut in individual income tax rates as a method of reducing tax burden on individuals by $15 billion. Feels that an across-the-board cut is preferable to an across-the-board rebate because it would be more permanent.

Charles W. Stewart, President, Machinery and Allied Products Institute (Feb. 7)

Expresses hope that revision of the rate structure of the personal income tax will be considered by Congress soon.

Rick Halberstein, Director, Capitol Hill Free Tax Clinic (Feb. 7)

Suggests reduction in the tax rates for those with taxable incomes under $20,000 (to be reflected immediately through changes in withholding).

5. Other proposals

Rick Halberstein, Director, Capitol Hill Free Tax Clinic (Feb. 7)

Urges the Committee to insist that the IRS and other agencies publicize the rebate and earned income credit, and make available forms and instructions for obtaining them that can easily be understood by those eligible for them.

Further recommendations and suggestions:

(1) Elimination of gasoline tax deduction (with a subsidy for the purchase of scarce fuel) in order to further justify a slightly reduced flat amount standard deduction for single persons;

(2) Enactment of H.R. 1680 (Mrs. Keys and others) to eliminate any interest or penalties for taxpayers whose tax liability for 1976 exceeded withholding (or estimated payments) due to changes in the Tax Reform Act of 1976;

(3) Amendment of the earned income credit to (a) remove the requirement of a child at home and (b) increase the amount of earnings subject to the credit; and

(4) Increase in the amount of earnings eligible, or the percentage rate applicable, for the new elderly credit for those over 65.

Carol Burris, President, Women's Lobby, Inc. (Feb. 9)

Supports changes which will treat working women more equitably. Notes that the tax cut proposal could be used to remove the marriage penalty.

B. Business Tax Reduction

Administration proposal for business tax reduction

The Administration is proposing a program of alternative business tax reductions. Each firm or self-employed person would be able to choose between an additional 2 percentage points of investment tax credit an increase in the present 10 percent credit to 12 percent, plus the additional investment credit for (ESOP's) or a refundable income tax credit based on a fraction of Social Security payroll taxes. (A refundable tax credit is one that may exceed tax liability.) For each employer, the payroll credit would be equal to 4 percent of the employer's share of payroll taxes (currently 5.85 percent of taxable payrolls). For the self-employed, the payroll credit would be equal to 2 percent of the self-employed payroll tax (currently 7.9 percent). The credit for payroll taxes would be available to nonprofit institutions and State and local governments.

The effective date for both the additional investment tax credit and the payroll tax credit would be January 1, 1977. The additional investment tax credit alternative would be available through 1980, but the credit for Social Security taxes would be permanent. (The alternative selected by each taxpayer would be binding for each year through 1980.

The reduction in business tax liability would be at an annual rate of $2.6 billion. The reduction in budget receipts would be $0.9 billion in fiscal year 1977 and $2.7 billion in fiscal year 1978.

1. Payroll tax credit

Jack Carlson, Chief Economist and Vice President, U.S. Chamber of Commerce (Feb. 4)

Contends that wage subsidies should not be viewed as substitutes for stimulating investment. Asserts that the payroll tax credit in the President's program would result in only small direct employment gains over the next two years.

Michael K. Evans, President, Chase Econometric Associates (Feb. 4)

Does not believe that any positive effects will result from the payroll tax credit. Believes the argument applicable to investment also applies to employment—that is, businesses will not hire people until aggregate demand is sufficiently buoyant.

Hendrik S. Houthakker, Harvard University (Feb. 4)

Contends that the credit will reduce the cost of labor only one quarter of one percent and is not likely to have any visible impact. Suggests that if a credit is adopted it should be much larger, perhaps as much as 25% of the employer share of FICA, and consideration should be given to applying this credit only to additional workers.

Reginald H. Jones, Chairman of the Board, General Electric (Feb. 4)

Believes an increase in the investment tax credit would be more stimulative than the Administration's social security tax credit. Maintains that the social security tax credit is not likely to stimulate additional hiring since it equals only about two-tenths of a percent of employment costs of a new employee.

Rudy Oswald, Director, Department of Research, AFL–CIO (Feb. 4)

Opposes the payroll tax credit as part of a futile search for a way to use business tax cuts to create jobs. Believes all such tax programs (1) provide benefits to firms for doing what they would do anyway, (2) benefit the largest firms least in need of aid, and (3) divert Federal revenue away from realistic solutions. Indicates that the Administration's 4-percent payroll tax credit proposal would give each employer about a penny per hour worked by each employee—whether their workforce increased, decreased, or stayed the same.

Howard Young, Special Consultant to the President, United Automobile Workers International Union (Feb. 4)

Opposes the optional tax credit plan for business. States that the 4-percent payroll tax credit would amount to only 0.23 percent of payroll, will not stimulate employment, and amounts to an outright gift to business.

Walter W. Heller, University of Minnesota (Feb. 4)

Indicates in response to a question that the payroll tax credit will be good for small business that is particularly labor intensive, but he would like to see the program expanded.

Roland M. Bixler, Chairman, Committee on Taxation, National Association of Manufacturers (Feb. 7)

Suggests that the payroll tax proposal is responsive to the increasing burden of payroll taxes on marginal employment. Also maintains that credit's refundability would enable it to be utilized by all businesses with any payroll costs. However, believes it will have questionable impact on employment because of its limited nature. Recommends higher credit at later date, although cautions that this "would further fractionalize the incentive features of the tax system".

Indicates that a credit for social security taxes represents "a backdoor approach to general revenue financing" of the OASDI program, an inappropriate step in the context of a quick tax relief measure.

Also dislikes alternative election process; and fears that many firms preferring to elect the investment credit will choose the payroll credit because presumably it will be more permanent.

Charles W. Stewart, President, Machinery and Allied Products Institute (Feb. 7)

Agrees that the proposal introduces an element of tax equity into tax incentives for business by providing a benefit for labor intensive firms, but considers the proposed credit too small to have much impact on employment. Believes, however, that it might set an unfortunate precedent for the financing of social security revenues out of general revenues.

Does not feel that the inflexibility of the option between the investment tax credit and social security tax credit is necessary.

Charls E. Walker, Chairman, American Council for Capital Formation (Feb. 7)

Characterizes proposal as first step toward funding Social Security obligations out of general revenues. Feels further study is needed before such a step is taken.

Argues that the payroll tax credit is too small to affect hiring practices. Also expresses concern about the "lock-in effect" that the proposal would have as a result of the inflexibility of the choice between it and the investment tax credit increase.

David L. Baker, President, Machinery Dealers National Association (Feb. 7)

Endorses the proposal. Wonders, however, how the payroll tax credit would apply to large corporations whose businesses are highly cyclical and also highly seasonal.

David Toll, Edison Electric Institute (Feb. 7)

Maintains that the payroll tax credit should "not diminish the availability or utilization of existing tax credits". Believes that the payroll tax credit should, for rate-making and accounting purposes, be amortized over five years or some other reasonable period of time.

Milton D. Stewart, President, National Small Business Association (Feb. 8)

Prefers a job tax credit to the payroll tax credit.

Bruce G. Fielding, Director and Secretary, National Federation of Independent Business (Feb. 8)

Asserts that the proposed social security tax credit would not provide an incentive for small businesses to hire additional people. Considers the benefits a large business would derive from the proposed credit to be a windfall.

Albert B. Ellentuck, CPA, Silver Spring, Md. (Feb. 8)

Believes the credit for payroll taxes will not provide an effective incentive to individuals to hire additional workers. Recommends, instead, a selective credit based solely on incremental payroll costs. Suggests as a guideline a credit of 5.85% of additional employees' wages subject to FICA tax, thus, in effect, relieving the employer of FICA tax on the wages of each such new worker. Contends that the stipulation that election between the payroll tax credit and the increased investment tax credit be binding on the taxpayer for a period of years is unfair to a business which is not predominantly capital intensive or labor intensive. Suggests that the benefit should be made available to all types of businesses year after year.

Robert Eisner, Northwestern University (Feb. 8)

Believes the proposed payroll tax credit is a small step in the right direction but that bracketing it with the option of the increased investment tax credit robs both proposals of their value as incentives. Feels that payroll tax credits would stimulate the economy because they lower the cost of production and hence tend to counter inflationary forces. Contends, however, that the current Administration proposal is so small an amount and generalized as to be of little more than symbolic value in stimulating employment. Recommends alternative proposals such as eliminating the entire 11.7% payroll tax for specific kinds of employees.

Norma Pace, Senior Vice President, American Paper Institute (Feb. 8)

In response to a question, states that the payroll tax credit will not result directly in a person being employed but reductions in labor costs encourage more spending which will ultimately lead to the creation of more jobs.

Andrew J. Biemiller, Director, Department of Legislation, AFL–CIO (Feb. 9)

Criticizes the idea of giving corporations their pick of tax breaks. Oppose giving corporations a tax reduction. Does not feel the credit will create any new jobs, noting that the WIN credit has not created jobs. Points out that savings from not adopting this credit could be used to provide relief for poor people.

Carol Burris, President, Women's Lobby, Inc. (Feb. 9)

Argues that the proposed social security credit is "compounded sexism", since it continues to force lower paid women to pay a 5.85 percent tax while giving a credit to generally male employers.

2. *Investment tax credit*

Jack Carlson, Chief Economist and Vice President, U.S. Chamber of Commerce (Feb. 4)

Argues there is too little stimulus for investment in the Administration's tax reduction program. Believes that investment is currently more risky than in the recent past due to the effects of Vietnam, recessions, floating exchange rates, wage-price controls, increased energy prices, government regulation, and fear of inflation. Advocates a permanent, refundable 12-percent investment tax credit on an expenditure basis, as well as widening the variable capital cost recovery under the ADR system to 40 percent of the Treasury guidelines.

Michael K. Evans, President, Chase Econometric Associates (Feb. 4)

Asserts that the proposed increase in the investment tax credit has virtually no effect because it is a small increase, the investment credit has a small multiplier, and it operates with a long lag.

Hendrik S. Houthakker, Harvard University (Feb. 4)

Does not favor the option of claiming the higher investment tax credit or the employment tax credit. Believes it will cause problems with mergers, new incorporations, consolidated returns, etc. Is not convinced that a further increase in the investment tax credit is desirable; maintains that a further reduction in long-term interest rates resulting from a resolute anti-inflationary policy would have a more favorable effect on fixed investment.

Reginald H. Jones, Chairman of the Board, General Electric (Feb. 4)

Favors a permanent increase in the investment tax credit to 13%. Maintains that businessmen are not investing now because inflation and the resultant erosion of depreciation allowances has damaged profitability. Claims that after-tax return on investment fell from 9.9% in 1965 and rose to 3% in 1976. Argues that tax reform and improved capital recovery allowances are long-term needs, but that an increased investment tax credits will increase investment permanently and keep it going.

Rudy Oswald, Director, Department of Research, AFL–CIO (Feb. 4)

Opposes an increase in the investment tax credit. Maintains that it would not put anybody to work because businessmen do not invest in anticipation of tax windfalls but in anticipation of profits from higher sales. Asserts that profits have fully recovered from the recession, and that corporate retained earnings are growing at a rate 65 percent higher than in 1974.

Indicates that the corporate share of the tax burden has dropped markedly largely due to business tax "incentives." Claims three such incentives—accelerated depreciation, the investment credit, and DISC—currently cost $12 billion in lost revenue, and the corporate share of Federal income tax collections has dropped from 35 percent to 24 percent in the past 10 years.

Howard Young, Special Consultant to the President, United Automobile Workers International Union (Feb. 4)

Argues that the investment tax credit has no perceptible effect on investment and should be abolished, not increased. Feels that the best incentive for increased capital investment is a growing economy, and business tax credits amount to just handouts.

Roland M. Bixler, Chairman, Committee on Taxation, National Association of Manufacturers (Feb. 7)

Suggests a two or three-point increase in the investment credit as either an alternative to or complement of a corporate rate deduction. Stresses importance of making such an increase permanent, in that "much of the investment qualifying for the credit requires long lead times for rational economic planning." Feels that the investment credit stimulates more investment per dollar of revenue loss than does an equivalent corporate rate reduction. Estimates that a credit increase of 2–3 points would cost between $1.8 and $2.5 billion.

Points out that "many firms would not be in a position to utilize an expanded investment credit because of the existing 50 percent of tax liability limit." Recommends some liberalization of this limit if credit is expanded.

Charles W. Stewart, President, Machinery and Allied Products Institute (Feb. 7)

Advocates a permanent 12-percent investment tax credit, with a 15-percent credit (or higher) for expenditures on anti-pollution equipment. Expenditures for such equipment are characterized as "a diversion of available capital from economic capital investments which increase productivity, help support economic growth, and create jobs."

Argues that the investment credit is effective as a long-term stimulus to capital formation rather than as a countercyclical device, as it is most effective when permanent because only when it is certain is business confidence enhanced.

Charls E. Walker, Chairman, American Council for Capital Formation (Feb. 7)

Would welcome an increase in investment tax credit. Believes "it will do more to stimulate capital formation than any of the other proposed measures." But considers it to be insufficient to solve problems arising from bias in tax system in favor of consumption.

Argues that even if business tax reductions, such as an increase in the investment credit, are passed on to consumers in the form of lower prices, they still would be effective in stimulating capital formation because they would increase the net return on investment.

William Miller, Member, Advisory Board, Coalition of Northeastern Governors and Chairman, Textron (*Feb. 7*)

Believes that increase in investment tax credit is a good idea; however, contends that it will favor areas where economic activity is already satisfactory.

George H. Lawrence, President, American Gas Association (*Feb. 7*)

Favors (1) increase in the investment tax credit to 12 percent on a permanent basis; (2) the granting of the same use of the increased investment tax credit limitation currently available to electric and gas distribution companies to pipeline companies and other companies engaged in development of supplemental gas sources; (3) Congress making it clear to regulatory authorities that the investment would be available only if it is not "flowed through" to customers; (5) making the option to take the increased investment credit or the 4-percent credit based upon payroll taxes paid for Social Security available annually (characterizes requirement of a binding election through 1980 as unduly restrictive).

Maintains that an investment credit increase would be more beneficial than an employment or payroll tax credit to the natural gas industry because of the capital intensity of the natural gas production process.

David Toll, Edison Electric Institute (*Feb. 7*)

Supports 2-percent increase in investment tax credit on a permanent basis. Believes that the additional 2-percent credit should not be subject to investment tax credit limitation based on liability for tax. Argues that the 2-percent additional credit should be available at the time of the investment rather than the date the qualifying property is placed in service. Contends that the additional 2-percent credit should be subject to ratemaking and accounting options, similar to those presently provided in the Internal Revenue Code. Suggests that the option to use either the additional 2-percent investment tax credit or the payroll tax credit be made on a year-to-year basis, to be made no later than the time for filing the income tax return.

Maintains that the investment credit increase would be more beneficial to the electric utility industry because of its capital intensive nature. Disagrees that the electric utility industry is going to engage in capital investment whether the actual credit is available or not, because of demand pressures and the regulatory process for fixing rates. claims that environmental pressures and customer pressures against increased rates are leading to postponement of construction. Argues that capital expenditures are not automatically recouped from customers in the form of higher rates, as there is often a long delay in rate adjustments.

Frederic W. Hickman, Counsel, Trans-Union Corporation (*Feb. 7*)

Recommends that the 12-percent investment credit be made either transferable or refundable. Says this would enable firms who are most affected by the net income limitation to take greater advantage of the proposed increase in the credit. Contends that firms most disadvantaged by the net income limitation tend to be young, small, rapidly, expanding, and temporarily financially troubled. Asserts that making the investment tax credit transferable would not involve marketing of companies and would remove an incentive encouraging business combinations. Maintains that transferability would not enhance banks at the expense of other businesses.

Believes that investment tax credit has stimulated employment. Argues that the fluctuations in the investment tax credit have impeded business planning and sometimes greatly accentuates the business cycle.

Norma Pace, Senior Vice President, American Paper Institute (Feb. 8)

Favors a permanent and larger increase in the investment tax credit. Prefers the availability of the credit on an expenditure basis without a phase-in period for projects with long lead times. Suggests a 20% credit for capital expenditures for pollution abatement.

Milton D. Stewart, President, National Small Business Association (Feb. 8)

Prefers a job tax credit to an increase in the investment tax credit.

Bruce G. Fielding, Director and Secretary, National Federation of Independent Business (Feb. 8)

Contends that the 2% investment tax credit option increases the inherent inequity in an already "lopsided" tax incentive.

Reuben L. Johnson, Director of Legislative Services, National Farmers Union (Feb. 8)

Recommends increase in the investment tax credit beyond the proposed 12%, at least to a limited extent for farmers up to $100,000 investment in a single tax year. Suggests an increase to 15% or 20% as an emergency measure for farm equipment.

Robert Eisner, Northwestern University (Feb. 8)

Asserts that the proposed increased investment tax credit is likely to be ineffective since the currently sluggish rate of business investment is attributable to the overall state of the economy. Contends that increasing the investment tax credit will add to corporate treasuries and somewhat to corporate stock values, but it will do little for the economy. To increase business investment, urges a high marginal or incremental tax credit of 40 or 50 percent on investment spending above some base, such as investment of the previous year or some multiple of depreciation changes. Maintains that such a credit must be temporary to provide inducement to firms to take advantage of it when available.

Adds, in response to a question, that the effect of the investment tax credit on investment is small, but you get a much bigger effect if it is temporary and incremental.

Hon. Lloyd Bentsen, U.S. Senator, Texas (Feb. 9)

Favors a permanent investment credit to encourage capital investment.

Andrew J. Biemiller, Director, Dept. of Legislation AFL–CIO (Feb. 9)

Does not support a tax cut for business. Asserts that the 1975 increase in the credit had no impact on investment. Notes that savings from not adopting the increased credit could be used to assist the poor or for other programs.

John C. Davidson, President, the Tax Council (*Feb. 9*)

Supports the investment tax credit option, but argues that the credit should be made permanent. Maintains that the primary cause of inflation is wages and salaries increasing faster than productivity. Claims that incentives for capital formation will be needed in order to increase productivity even when the economy has recovered. Also criticizes the idea of an incremental investment credit, noting that it would discriminate in favor of the strongest firms and would be destabilizing. Argues that the credit is a reduction of the tax on capital rather than an incentive. Suggests that the focus on capital shortages has been misleading; the real point is that we need to increase saving.

Frederick G. Jaicks, American Iron and Steel Institute (*Feb. 9*)

Supports a permanent increase in the investment tax credit, contending that businesses do not make long range plans based on short term considerations.

Carol Burris, President, Women's Lobby, Inc. (*Feb. 9*)

Criticizes the investment credit which encourages purchase of labor saving devices, as assisting management level employees where women are under-represented while not helping clerical and service workers.

Wallace D. Barlow, Executive Director, Share the Work Coalition (*Feb. 9*)

Opposes the investment credit. Asserts that nations without investment credits have lower rates of unemployment.

Matthew J. Kerbec, President, Output Systems Corporation (*Feb. 9*)

Contends that the investment tax credit is a windfall and that it has little stimulative effect for firms with unused capacity.

3. Employment (job) credit

Jack Carlson, Chief Economist and Vice President, U.S. Chamber of Commerce (*Feb. 4*)

Believes the Ullman employment credit proposal would accentuate cyclical variations in the economy and that narrowing the requirements for eligible workers, such as only the unemployed over 26 weeks, would increase the differential impact of the program between industries and geographic regions.

Walter W. Heller, University of Minnesota (*Feb. 4*)

Indicates that the employment tax credit has appeal because it would be simple, quick, and focussed on jobs. In response to a series of questions, however, suggests the program may build in incentives to drop workers once the tax bonus runs out, inhibit investment, have a differential impact by industry and geographic area, be difficult to administer, and be less effective than direct payments for hiring and training the structurally unemployed.

Rudy Oswald, Director, Department of Research, AFL–CIO (*Feb. 4*)

Believes a job credit with a base period or other limitation would be unworkable, unenforceable, and an "administrative nightmare" for the employer and the IRS.

Charles W. Stewart, President, Machinery and Allied Products Institute (Feb. 7)

States that an incremental employment credit is superior to a social security tax credit in that its availability is conditional on expanding personnel. However, indicates the following weaknesses: (1) it would be difficult to administer; (2) it would be inequitable because of the arbitrary nature of the base on which it would be calculated (for example, a company which weathered a recession without a reduction in work force, and, therefore, could not justify any increase in work force, would not benefit, while a company which engaged in heavy layoffs in 1976—and then had substantial rehires in 1977—would be entitled to the credit); and (3) it would be too small to influence employment decisions significantly.

Would support the credit on an experimental basis as long as it would not compromise other needed tax reforms and tax incentives.

Roland Bixler, Chairman, Committee on Taxation, National Association on Taxation (Feb. 7)

Opposes an employment tax credit on incremental basis because of paperwork burden it would impose on small business, and because there is no evidence that the WIN credit has worked. Cautions that there would need to be some real safeguards to prevent abuses.

William Miller, Member, Advisory Board, Coalition of Northeastern Governers, and Chairman, Textron (Feb. 7)

In response to a question, indicates that he is not sure an incremental employment credit would actually increase employment. Also indicates that the benefit of the credit would accrue disproportionately to firms that would be expanding even in the absense of a tax stimulus.

Milton D. Stewart, President, National Small Business Association (Feb. 8)

Urges as a first step, passage of a Small Business Job Credit of 50% for up to 10 new jobs per business, with a limit of $80,000 on the total credit available to each business. Asserts that the credit can be included in the total stimulus package or be available as a third option for each business. Recommends three stages for adoption of the job tax credit: First, that the credit be targeted to small business and to all the unemployed; second, that the credit be targeted to the hard-to-hire and to high unemployment areas; and third, that a permanent, variable, economy-wide credit eventually be adopted.

Adds, in response to a question, that administrative problems with the job credit would be no greater than those found with the investment tax credit or other Federal programs.

Bruce G. Fielding, Director and Secretary, National Federation of Independent Business (Feb. 8)

Prefers an employment tax credit to payroll tax credit or increased investment tax credit. Proposes a maximum credit of 25% of the increase in FICA quarterly taxable wages, determined by comparing the quarterly wages in the current quarter with the same quarter for the previous year, adjusted by an index reflecting cost-of-living increases,

increases in the FICA wage base and other factors. Asserts that the primary beneficiary would be the small employer.

With the inducement of an incremental jobs credit, adds, in response to questions, that small service and retail businesses would hire additional people and be more willing to invest in training young people and black people. Suggests narrowing of application of credit to high-unemployment areas as a second stage. Considers the job credit to be simple to administer.

Robert Eisner, Northwestern University (*Feb. 8*)

Recommends an employment tax credit equal to 50% of wages be given for up to the first $16,500 of wages or salaries for all newly hired employees who have been unemployed for ten weeks or more or who have not yet earned over their lifetimes $16,500 in covered employment, subject to the restriction that such tax credits will be available only on that portion of the employer's covered payroll which exceeds his covered payroll in the previous year.

Contends that since these tax credits would result in additional employment, their cost should not be considered a tax loss to the Treasury, because if these individuals had not been employed, they would not have been paying taxes in any event. However, if the gross tax loss appears high, suggests that it can be cut by limiting the credit to the relevant portions of payrolls in excess of 105% of those of the previous year.

Feels that the employment tax credit would enable businesses to charge less for additional work which would require taking on extra employees. Claims that targeting to youth and to those people who have been laid off and have not worked in the last 10 weeks would pose minimal problems.

Norma Pace, Senior Vice President, American Paper Institute (*Feb. 8*)

In response to a question, indicates that the employment tax credit is a fine alternative for those industries that are not capital intensive. Believes it provides a balance to the situation that has prevailed where capital intensive industries were getting benefits and the service-related industries were not, and that it helps in creating jobs. Expresses concern, however, that the job credit incentive might result in lower productivity, thus causing inflation.

Hon. Robert Dole, U.S. Senator, Kansas (*Feb. 9*)

Supports employment tax credits which encourage hiring and higher productivity in the private sector. Discusses an incremental credit (as in his bill, S. 616) to give only employers who hire more workers a break. Notes that such a credit can be general or targeted (limited to those unemployed for 26 weeks or longer). A targeted proposal could provide a $1 per hour subsidy for the first six months and a $.50 per hour subsidy for the second six months, increasing employment by an estimated 450–550 thousand by the end of 1978 at a cost of $440 million in FY 1977 and $2 billion in FY 1978. A general credit off $1 per hour with an additional $.50 per hour for those unemployed for 26 weeks or longer would cost $2 billion in FY 1977 and $8 billion in FY 1978. Notes that the job credit is not a substitute for other investment tax incentives. Notes that there is some windfall element in the credit, just as there is in other proposals, but you can try to minimize it by making the credit incremental and phasing it out as the unemployment rate falls.

Hon. Lloyd Bentsen, U.S. Senator, Texas (Feb. 9)

Advocates an incremental employment tax credit. Under his proposal, employers would receive a tax credit of 5 percent of wages of workers hired or retained over an employment base which would rise or fall as the unemployment level changes (and would be phased out completely when the unemployment rate declines to below 5 percent). Believes that the Administration's 4-percent payroll tax credit would not encourage expansion of jobs.

Andrew J. Biemiller, Director Department of Legislation, AFL–CIO (Feb. 9)

Does not support the incremental job tax credit. Contends that it will not work as businesses will hire more people only because there is a greater demand for their product but will not hire even with an incentive if there is no work for them. Asserts that the credit will just reward those who are doing well financially.

Carol Burris, President, Women's Lobby Inc. (Feb. 9)

Supports idea of an incentive for permanent part-time employees.

4. Reduction in corporate tax rates (or change in surtax exemption)

Michael K. Evans, President, Chase Econometric Associates (Feb. 4)

Advocates a 10% reduction in corporate income taxes, along with a 10% decrease in personal income taxes, instead of the President's tax reduction program. Maintains this proposal would have a higher multiplier effect and be more stimulative to investment. Believes high inflation levels have increased the rate of return threshold for business investment decisions, and therefore a permanent corporate tax reduction, or increase in capital recovery allowances, is necessary to stimulate investment and productivity. Disputes the argument that increased demand will cause higher investment because we are seven quarters into economic recovery and yet investment is far lower than at the same point in previous recoveries.

Answers a question that the average age of capital equipment a decade ago was nine years, now it is 11 years. Indicates that until three years ago depreciation allowances kept pace with replacement costs; however, in 1977 indicates there will be an $18 billion shortfall.

Hendrik S. Houthakker, Harvard University (Feb. 4)

Believes that problems of lagging investment and inadequate savings should be alleviated by partial integration of the corporate and individual income taxes by allowing a corporate tax deduction for dividends. Also urges consideration of tax aspects of replacement cost accounting to remove problem of corporations paying tax on profits that were not really earned in any economic sense.

Roland M. Bixler, Chairman, Committee on Taxation, National Association of Manufacturers (Feb. 7)

Advocates an immediate across-the-board reduction in the normal corporate tax to 20 percent (leaving a 46 percent top rate) and an extension of the corporate surtax exemption now at $50,000 to $60,000 in 1977 and to $100,000 in four additional steps by 1981. Contends that the rate structure of the corporate income tax is the basic tax impediment to investment and productive employment. Claims that rate reduction will achieve the greatest improvement in allocative efficiency and therefore result in more real wage gains. States that general rate reduction would "give relatively more boost to small and moderate-size businesses." Estimates revenue cost of proposed rate reduction package at $2.9 billion for 1977 and "slightly more" for later years.

Charles W. Stewart, President, Machinery and Allied Products Institute (Feb. 7)

Suggests reduction in corporate income tax rates as a possible alternative to social security tax credit. Expresses hope that Congress would consider a revision in the corporation income tax soon.

Norma Pace, Senior Vice President, American Paper Institute (Feb. 8)

Urges consideration of a reduction in the corporate income tax rate of 2%, as a way of providing more funds for business spending, which creates jobs.

Reuben Johnson, Director of Legislative Services, National Farmers Union (Feb. 8)

Prefers that stimulus to business and industry be in the form of an increased investment credit or accelerated depreciation rather than through a reduction in corporate income tax rates, in order to encourage as much capital improvement and modernization of facilities and equipment as possible.

Bruce G. Fielding, Director and Secretary, National Federation of Independent Business (Feb. 8)

Adds, in response to a question, that a reduction in the corporate tax rate would not help upwards of 10 million unincorporated businesses.

5. Other proposals

Charles W. Stewart, President, Machinery and Allied Products Institute (Feb. 7)

Considers it to be unfortunate that our depreciation system is not indexed. Points out that, according to government figures, there was a $15.5 billion shortfall in 1976 between unadjusted depreciation and depreciation computed on a straight-line basis with a correction for inflation. Suggests this failure to index is harming the United States in international economic competition. Expresses hope that Congress will consider revision of the corporation income tax soon.

Charls E. Walker, Chairman, American Council for Capital Formation (Feb. 7)

Asks the Committee to "explicitly reassure the American public and the business community of its determination to move as quickly as possible to enact tax measures for capital formation . . ." Suggestions include elimination of the double taxation of corporate dividends; more realistic depreciation allowances; and reduction in excessive capital gains taxation.

William Miller, Member, Advisory Board, Coalition of Northeastern Governors and Chairman, Textron (Feb. 7)

Proposes that firms investing in manufacturing equipment in States where the five-year moving average of unemployment rates exceeds the national average be allowed to calculate their Federal tax liabilities using depreciation rates which are twice those presently allowed. In addition, the five-year unemployment average would have to exceed 6 percent. Justifies proposal as aid to depressed Northeast region and as a stimulus to capital formation and thus indirectly to jobs.

Recognizes that political and practical obstacles to regional targeting of tax incentives exists at this time. Hopes that some targeting is possible on an experimental basis.

Suggests that ideally tax incentives would be limited to economic areas within each State which are economically depressed rather than to whole States. However, points out that his proposal uses States as target areas because unemployment statistics are not sufficiently disaggregated below that level.

Maintains that accelerated depreciation is "almost universally recognized" as the most effective way of stimulating job-creating investments. Indicates that he is not necessarily recommending his accelerated depreciation proposal in place of the increase in the investment tax credit. Responds that if forced to choose between the two, would opt for accelerated depreciation.

Malcolm L. Corrin, National Executive Director, Interracial Council for Business Opportunity (Feb. 8)

Urges enactment of tax incentives or other measures designed to encourage the business sector to be yet more active in stimulating minority business growth.

Hon. Carl Curtis, U.S. Senator, Nebraska (Feb. 9)

Proposes a stock ownership plan to provide an incentive for low- and moderate-income taxpayers to buy and hold common stocks in American industry. Under his proposal, a taxpayer could deduct 15 percent of earned income (up to $1,500) for earned income up to $20,000, with a complete phaseout at $40,000 income. The stock would have to be held for 7 years to receive capital gains treatment.

Andrew J. Biemiller, Director, Department of Legislation, AFL–CIO (Feb. 9)

Proposes a windfall profits tax on gas and fuel companies.

Hon. Clif Overcash, United States Conference of Mayors (Feb. 9)

Proposes that hiring and investment incentives be directed toward urban centers. One approach would be to give the highest credits for expansion of urban business, the next highest for maintenance of urban business and the lowest for business outside of urban areas. Also proposes the adoption of double declining balance depreciation for all construction and five-year amortization for all structural rehabilitation expenditures.

John C. Davidson, The Tax Council (Feb. 9)

In response to a question, indicates support of ending double taxation of dividends by allowing a stockholder credit for corporate taxes paid.

Frederick C. Jaicks, American Iron and Steel Institute (*Feb. 9*)

Supports additional incentives for capital formation including an end to double taxation of dividends and more flexible capital cost recovery, including shorter recovery periods. Notes that the shortage of funds for investment is exacerbated by the required non-productive expenditures for pollution control and industrial health and safety. Argues that these expenditures should be deducted when incurred.

Margaret C. Sullivan, Stockholders of America, Inc. (*Feb. 9*)

Favors an elimination of the double taxation of dividends by allowing a credit to stockholders for tax paid by corporations. Contends that this is important because of the need for investment and the ending of the bias in favor of debt financing.

Wallace D. Barlow, Executive Director, Share the Work Coalition (*Feb. 9*)

Proposes that the corporate tax rate be increased for industries with a low labor content and decreased for industries with a high labor content.

III. COMMENTS ON EXPENDITURE PROPOSALS

A. Payment To Social Security, Etc., Recipients

Administration proposal

The Administration proposes a one-time $50 per person payment to Social Security, Supplemental Security Income (SSI), and Railroad Retirement beneficiaries. (This is identical to the provision in the Tax Reduction Act of 1975.) The increase in outlays would be $1.8 billion for fiscal 1977.

Rick Halberstein, Director, Capitol Hill Free Tax Clinic (Feb. 7)

Endorses the proposed payment as needed for the elderly.

David L. Baker, President, Machinery Dealers National Association (Feb. 7)

Supports the proposed payment.

Andrew J. Biemiller, Director, Dept. of Legislation AFL–CIO (Feb. 9)

Notes that savings from not including the business tax cuts and phasing out the rebate could be used to increase these payments as well as providing higher tax rebates to low wage earners.

Carol Burris, President, Women's Lobby Inc. (Feb. 9)

Indicates support as this program will provide larger benefits to women.

B. Increased Countercyclical Revenue Sharing Aid

Administration proposal

The Administration proposes to add $0.5 billion to countercyclical revenue sharing in fiscal year 1977 and $0.6 billion in fiscal year 1978. Countercyclical payments are currently triggered in the aggregate when the national unemployment rate exceeds 6 percent; localities receive payments if their unemployment rate is then in excess of 4.5 percent. This program, which is designed to compensate State and local governments for shortfalls in revenues due to slow or declining economic growth, provides quarterly payments of $125 million plus $62.5 million per half-percentage point of unemployment in excess of 6.0 percent. The program has a current authorization of $1.250 billion and is scheduled to expire at the end of fiscal year 1977.

The Administration recommends extension of the program through 1980, an increase in the aggregate authorization to $2.250 billion, and quarterly payments on the basis of tenths of percentage points of excess unemployment rather than the current half percentage points. The increment would be $30 million per tenth of a percentage point rather than the current $62.5 million per half percentage point.

Jack Carlson, Chief Economist and Vice President, U.S. Chamber of Commerce (Feb. 4)

Feels that public employment should not be used to solve cyclical unemployment, only structural unemployment. Contends that cities use public service jobs funds to pay for existing employees or employees they intended to hire anyway.

Rudy Oswald, Director, Department of Research, AFL–CIO (Feb. 4)

Advocates $2 billion in additional countercyclical revenue sharing as a part of a $30 billion jobs creation program.

David L. Baker, President, Machinery Dealers National Association (Feb. 7)

Supports proposal for increased countercyclical revenue sharing aid.

Andrew J. Biemiller, Director, Dept. of Legislation AFL–CIO (Feb. 9)

Proposes $2 billion in countercyclical revenue sharing as part of overall expenditure program of $30 billion in lieu of tax reduction proposals.

C. Increased Public Works

Administration proposal

The Administration proposes increased outlays for public works programs of $200 million for fiscal 1977 and $2 billion for fiscal 1978.

Jack Carlson, Chief Economist and Vice President, U.S. Chamber of Commerce (Feb. 4)

Believes that the potential for expanding construction through private works is greater than through public works. Contends that public works have a long lead time and the program would create more jobs in 1979 through 1982 than in the next two years. Expresses concern that increased public works may accelerate inflation.

Michael K. Evans, President, Chase Econometric Associates (Feb. 4)

Indicates that although increased public works and jobs creation programs have a significant short-term effect by immediately creating jobs, the stimulus quickly decreases because the programs cause higher inflation and lower productivity growth in the private sector.

Rudy Oswald, Director, Department of Research AFL–CIO (Feb. 4)

Proposes $10 billion of accelerated public works as part of a $30 billion jobs creation program. Believes direct job creation is more efficient and returns more to the government in tax receipts and reduced social costs than attempting to create jobs through tax reduction. Asserts that the Administration's $22 billion tax cut would create only 660,000 jobs within a year, but through public works the same number could be created at a cost of only $9.5 billion. Maintains that public works spending creates private sector jobs and gives the economy a boost even before significant outlays of Federal funds, because projects begin as soon as approved.

Howard Young, Special Consultant to the President, United Automobile Workers International Union (Feb. 4)

Believes that substantially increased funds should be budgeted for job creation.

Andrew J. Biemiller, Director, Dept. of Legislation, AFL–CIO (Feb. 9)

As part of substitute overall expenditure program of $30 billion, supports a $10 billion increase in public works expenditures.

Frederick C. Jaicks, American Iron and Steel Institute (Feb. 9)

Suggests that a greater emphasis on public works rather than public service jobs is appropriate, since public works provide long lasting benefits. States that these programs should use American products.

Matthew J. Kerbec, President, Output Systems Corporation (Feb. 9)

Argues that a public works program will create more jobs at less cost per job than the investment tax credit or the rebate.

D. Increased Public Service Employment

Administration proposal

The Administration proposes increased outlays for public service employment programs of $700 million for fiscal 1977 and $3.4 billion for fiscal 1978.

Jack Carlson, Chief Economist and Vice President, U.S. Chamber of Commerce (Feb. 4)

Maintains that public service employment is an inappropriate approach to cyclical unemployment, and should be used only for structural unemployment. Argues that public service jobs are "dead-end" jobs, cost 50 percent more than the minimum wage, and unfairly subsidize the public sector instead of the private sector.

Michael K. Evans, President, Chase Econometric Associates (Feb. 4)

Believes that public jobs programs create jobs quickly but lead to inflation and reduced productivity in the private sector.

Hendrik S. Houthakker, Harvard University (Feb. 4)

Feels that the manpower programs in the President's program are largely misdirected because present unemployment results primarily from a large increase in the labor force and structural factors and not from strong cyclical problems. Claims that teenage unemployment could be more usefully dealt with, without spending any money, by exempting them from the minimum wage. Prefers on-the-job training to public service jobs, and believes there should be increased efforts to find jobs for Vietnam veterans.

Reginald H. Jones, Chairman of the Board, General Electric Co. (Feb. 4)

Proposes $5 billion of additional funds this year and next for an expanded jobs program, mostly through the CETA program.

Rudy Oswald, Director, Department of Research, AFL–CIO (Feb. 4)

Advocates $8 billion in additional public service employment as a part of a $30 billion direct jobs creation program. Quotes labor Secretary Marshall that tax cuts cost $20,000 per job created while public service employment costs only $5,000 net per job. In response to a question, opposed exemption of youth from the minimum wage because it would merely transfer jobs from one person to another but create no new jobs.

Howard Young, Special Consultant to the President, United Automobile Workers International Union (Feb. 4)

Believes that substantially increased funds should be budgeted for job creation.

Malcolm L. Corrin, National Executive Director, Interracial Council for Business Opportunity (Feb. 8)

Does not oppose emergency public service jobs but believes increases in funds available to the Small Business Administration for loans could stimulate permanent employment equally well among the structurally unemployed as the expenditure of public funds.

Albert B. Ellentuck, CPA, Silver Spring, Maryland (Feb. 8)

Adds, in response to a question, that there is a need for public sector jobs as well as the employment credit, because the public sector jobs would accomplish some targeting.

Andrew J. Biemiller, Director, Dept. of Legislation, AFL–CIO (Feb. 9)

Supports an $8 billion expanded public service employment as part of substitute overall expenditure program of $30 billion.

E. Increased Job Training Funds

Administration proposal

The Administration proposes increased outlays for expanded youth and other job training programs of $300 million for fiscal 1977 and $1.6 billion for fiscal 1978.

Reginald H. Jones, Chairman of the Board, General Electric (Feb. 4)

Proposes $1 billion of industry hire-and-train contracts targeted at unemployed youths age 18–24 and welfare recipients.

Rudy Oswald, Director, Department of Research, AFL–CIO (Feb. 4)

Urges $2 billion in youth training programs as part of a $30 billion job creation plan.

Malcolm L. Corrin, National Executive Director, Interracial Council for Business Opportunity (Feb. 8)

Notes that the success of hire-and-train incentive programs which aim particularly at unemployed youth and welfare recipients depends upon the socialization process which the trainees undergo. Urges in considering jobs legislation that special provisions be included to subsidize hire-and-train programs specifically in minority-owned business firms.

Andrew J. Biemiller, Director, Dept. of Legislation, AFL–CIO (Feb. 9)

As part of a substitute overall expenditure program of $30 billion, proposes $2 billion in job training funds for youth.

F. Other Programs

Rudy Oswald, Director, Department of Research, AFL–CIO (Feb. 4)

Proposes $8 billion in housing expenditures as part of a $30 billion job creation program.

Malcolm L. Corrin, National Executive Director, Interracial Council for Business Opportunity (Feb. 8)

Urges increasing governmental funds available through the Department of Commerce, Small Business Administration, and other agencies to spur the growth in size and number of minority-owned firms. Cites records of minority owned firms that show for approximately each $10,000 of financing, on the average, the firm provides an additional permanent job. Also, hopes the budget of the Economic Development Administration can be increased because of its inner city revitalization programs.

Andrew J. Biemiller, Director, Dept. of Legislation, AFL–CIO (Feb. 9)

As part of a substitute overall expenditure program of $30 billion, proposes an $8 billion expenditure on housing programs.

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